LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7500	**NOTE PREPARED:** Jan 19, 2015
BILL NUMBER: HB 1481	**BILL AMENDED:**
SUBJECT: Public Retirement Plans.	
FIRST AUTHOR: Rep. Burton	**BILL STATUS:** As Introduced
FIRST SPONSOR:	
FUNDS AFFECTED: X GENERAL X DEDICATED X FEDERAL	**IMPACT:** State & Local

Summary of Legislation: The bill provides that after December 31, 2015, an eligible employee of the state becomes a member of the Public Employees' Defined Contribution Plan (ASA Only Plan).

It provides that an eligible employee of a political subdivision that participates in the ASA Only Plan becomes a member of the ASA Only Plan. It also provides that after December 31, 2015, a political subdivision may not begin or expand participation in PERF.

The bill provides that the employer of an individual who is a member of the ASA Only Plan shall match the individual's contribution to the plan to a limit of 7.5% of the individual's compensation.

The bill grants cost-of-living adjustments in 2015 and 2016 for certain members of : (1) PERF; (2) Indiana State Teachers' Retirement Fund (TRF); (3) State Police Pre-1987 Benefit System; and (4) State Police 1987 Benefit System.

Effective Date: Upon passage; July 1, 2015.

Explanation of State Expenditures: *Indiana Public Retirement System (INPRS)*: According to INPRS, they will incur approximately $35,000 in technology costs in regards to system requirements, testing, coding, and deployment for PERF, TRF, EG&C, and the Legislator Defined Benefit plan. These additional costs are a result of the formula changes contained within the bill.

The bill requires that INPRS calculate new ASA Only Plan member credit rates, which may vary widely. Also, INPRS will, over time, shift resources from PERF to the ASA Only Plan, as more and more active members age out of PERF. The bill's requirements may represent an additional workload for INPRS outside of the agency's routine administrative functions. Therefore, existing staffing and resource levels, if currently being used to capacity, may be insufficient for full implementation.

Typically, administrative costs of INPRS are absorbed by investment earnings from the respective pension funds.

Transition from PERF to ASA Only Plan: The bill essentially closes participation in PERF to state employees hired after December 31, 2015. All new employees of the state will instead become members of the ASA Only Plan. It is likely that over the long term, the shift of new employees to the ASA Only Plan will decrease costs for the state, as the unfunded liability of PERF decreases. Also, in times of a bad economy, to the extent that more PERF assets are part of the ASA Only Plan, losses to the state will be minimized. In the case of PERF, the unfunded liability will increase in an economic downturn as the value of assets decrease, thereby increasing state costs.

Changes in ASA Only Plan Employer Contribution Rates and Member Credit Rates: The bill changes the calculation to determine the amount of employer contributions into the ASA Only Plan, as well as the amounts that will be credited to individual member accounts. Specifically, the bill will increase the contribution rate for the ASA Only Plan from 11.2% to between 12.2% and 14.1%. This provision will not have an impact on the unfunded liability of PERF, but may well increase employer contribution rates into the ASA Plan.

Currently, employers pay the same 11.2% of payroll for both the ASA Only Plan and PERF. For the ASA Only Plan, the member's account receives a variable rate contribution of either a minimum of 3% or a rate that is not greater than the actuarial normal cost of PERF, currently 4.6%. The amount not credited to the member's account is applied to PERF's unfunded liability (11.2% less 4.6%, which equals a 6.6% contribution to PERF's unfunded liability).

The bill changes the amount of the employer contribution that is credited to the member's account. Specifically, the member's account may receive a minimum of 6%, or as much as 7.5%, of their compensation, depending upon the amount that an employee contributes to their account (the bill doubles the employee's contribution into their ASA, up to 7.5%). Employees are required to contribute 3% of their compensation to their ASA. Employees in the ASA Only Plan may opt to contribute an additional 0.75% or more of their compensation to receive the maximum 7.5% credited to their account. The bill does not change the amount of the contribution rate that goes toward the PERF unfunded liability (6.6% currently).

The savings choices of members in the ASA Only Plan will determine the overall increase in the cost to ASA Only Plan employers.

Two-Year COLA: The bill creates a formula for postretirement benefit adjustments that takes years of service, date of retirement, and current annual benefits into account for all plans except for the two State Police plans, which utilize different increase formulas under the bill. These benefit increases are in the form of a one-time cost-of-living adjustment (COLA). Table 1 reports the cost to the state due to the proposed increases.

Table 1. State Increase in Pension Benefits from COLA for the Biennium				
	Total Cost [1]	**Cost Attributed to General Fund[2]**	**Cost Attributed to Dedicated Funds[2]**	**Retirees/ Beneficiaries Affected (Approx)**
PERF (State)	$56.2 M	$26.4 M	$29.8 M	26,000
PERF (Local)	$114.0 M	$114.0 M	$0	52,000
Pre-1996 TRF	$172.0 M	$172.0 M	$0	49,000
1996 TRF (Local)	$12.3 M	$12.3 M	$0	4,000
EG&C Plan	$0.7 M	$0.7 M	$0	200
Legislator Defined Benefit Plan	$0.1 M	$0.1 M	$0	70
Indiana State Police Pre-1987	$0.8 M	$0.8 M	$0	500
Indiana State Police 1987	$1.1 M	$1.1 M	$0	550
TOTAL	**$357.3 M**	**$327.4 M**	**$29.8 M**	**76,320**

1. This analysis uses net present value of future benefits as the metric for cost to these COLA increases. This translates into the amount of funds that are needed today to invest to cover all of the future benefits payable under the bill. The analysis does not account for the amortization of these costs, which will result in yearly increases in either employer contribution rates (as applicable) or increased yearly appropriations. The cost estimates for all of the plans use retiree data as provided to Legislative Services Agency. This analysis is an estimate. A more precise cost estimate may be determined by conducting an actuarial analysis. This data is accurate as of 6/30/13. Totals may not sum due to rounding.
2. As a general rule, the General Fund covers 47% and dedicated funds cover 53% of pension obligations for state employees.

The bill requires that employer contribution rates will only be used to pay for these pension increases in the event that sufficient funds are not appropriated for this purpose. As a general rule, the General Fund covers 47% and dedicated funds cover 53% of pension obligations for state employees.

State costs are estimated to be $230.7 M, and local costs are estimated to be $126.3 M. However, the bill provides that the local share may be picked up by the state if there are sufficient appropriations provided in the state budget bill for this purpose, in which case the state cost will equal both the state share plus the local share, at a total of approximately $357 M. Assuming that sufficient appropriations are in fact made in the state budget bill for this purpose, approximately $327.4 M of that the total state obligation will be paid out of the state General Fund and approximately $29.8 M will be paid out of state dedicated funds. For local employees, it is assumed 100% would be covered by the state General Fund in this analysis.

For all funds except the two State Police funds, the formula is based on several factors: an increase of $5 for each year of service (up to 30 years of service) plus a percentage increase on current annual benefits, based on the date of retirement (not to exceed $150). The percentage increase is 0.75% for those who retired prior to January 1, 1985, 0.5% for those who retired between January 1, 1985, and December 31, 1999, and 0.25% for those who retired after December 31, 1999. The maximum available increase under this formula is $375 in the form of a COLA.

For the State Police Pre-1987 Benefit System, increases to retirees with 20 or more years of service are based on a 0.5% increase of actual benefits currently received. For the State Police 1987 Benefit System, increases are based on a 0.375% increase of the basic monthly pension amount of a 25-year trooper.

Under this bill, the state will bear the costs of the increase for the state-funded portion of PERF (roughly 1/3 of the total PERF system), the TRF Pre-1996 Fund, the EG&C Fund, the State Police Pre-1987 Benefit System, and the State Police 1987 Benefit System. The local PERF portion and the TRF 1996 Fund could impact local units (if the cost of the COLA for local units is not picked up by the state). For purposes of the bill, costs are defined as the increase in the net present value of each pension plan.

<u>Additional Information:</u> *Two-Year COLA*: The Pre-1996 Fund is paid for through appropriations from the state General Fund and payments from the Pension Stabilization Fund.

State PERF is actuarially prefunded through employer contributions. PERF employer contribution rates are 11.2% of payroll in FY 2015. Any increases to the employer contribution rates would be reflected in contribution rates beginning in FY 2017.

The Legislator Defined Benefit Plan is actuarially prefunded by state General Fund appropriations.

The EG&C Plan is actuarially prefunded through employer contributions. Employer contribution rates are 20.8% of payroll for EG&C as of January 1, 2015. Any increases to the employer contribution rates would be reflected in contribution rates beginning in CY 2017.

The EG&C Plan and the Legislator Defined Benefit Plan are statutorily linked to any benefit increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF and TRF impact.

Pension obligations for the Indiana State Police are paid through appropriations from the state General Fund. For the Pre-1987 Benefit system, members typically earn a supplemental retirement benefit increase every time that 6^{th} year troopers receive an increase in salary. The bill provides that if 6^{th} year troopers are granted a salary increase after 2014 and the salary increase results in a larger supplemental benefit than the COLA implemented by the bill, members will receive the higher benefit increase. The last time a 6^{th} year trooper was granted a salary increase was in 2008.

Move to ASA Only Plan: PERF members typically participate in a hybrid pension system, consisting of both a conventional pension benefit and an annuity savings account (ASA) which is funded by member contributions. State employees who are members of PERF have their 3% member contribution into the ASA "picked up" by the state, which means that the state, as the employer, makes the contribution on the member's behalf. Members are then able to contribute an additional amount (either pre-or post-tax) to the ASA. Currently, member contributions are limited to 10% of their salary per pay period.

The ASA Only Plan, which began operating in March 2013, is available to new state employees who were not previously members of PERF. Employer contributions are identical for both the ASA Only Plan and PERF.

In the ASA Only Plan, the employee's account receives a minimum of 3% and a variable rate/member rate contribution that is not greater than the actuarial normal cost of PERF, currently 4.6%. The amount not credited to the member's account is applied to the hybrid plan's (PERF's) unfunded liability (11.2% less 4.6%, which equals a 6.6% contribution to PERF's unfunded liability).

Members in the ASA Only Plan are 100% vested in the ASA Only Plan after 5 years, whereas PERF members are vested after 10 years. The vesting on the ASA Only Plan only refers to the member contribution

- the 3% employee contribution and any additional employee contributions are immediately 100% vested.

Explanation of State Revenues:

Explanation of Local Expenditures: *No Expansion of PERF for Local Employers:* The bill essentially closes expansion of local participation to PERF after December 31, 2015. For local units who currently participate in PERF, they may not enroll new classifications of employees into PERF after that date. Also, local units who are not PERF employers prior to that date may not become PERF employers. In both of these cases, new classifications of employees for existing PERF employers and all employees of local units not currently in PERF may become members of the ASA Only Plan, at the discretion of the employer.

Costs to individual local employers depend upon the decisions of those employers.

Changes in ASA Only Plan Member Credit Rates: See *Explanation of State Expenditures*.

Two-Year COLA: The local share of PERF is funded through employer contributions (11.2% of payroll for all but a few employers as of January 1, 2015), and local school corporations pay 7.5% of payroll for 1996 TRF. Contribution rates for local PERF and 1996 TRF will be affected by the provisions of the bill, beginning in 2017.

Explanation of Local Revenues:

State Agencies Affected: INPRS, All.

Local Agencies Affected: Units with members in PERF and school corporations with members in TRF.

Information Sources: INPRS and Indiana State Police 2013 retiree data; Donna Brown, Indiana Public Retirement System, dobrown1@inprs.in.gov.

Fiscal Analyst: Stephanie Wells, 232-9866.